

A Review of 1982

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anniversary of the first K mart store opened in the U.S. In many ways, this anniversary marked the end of the "old" K mart and ushered in the "new" K mart of the '80s.

Our ambitious strategy for growth in the 1980s is possible because of three key resources of K mart Corporation, which are unequaled in the retail industry. The first resource is the depth and breadth of our operating management. The second resource is our reputation throughout the U.S. as the retailer with the best prices and values everyday. And the third resource is our unmatched distribution of K mart stores in the U.S., Canada and Puerto Rico, serving over 80% of the buying public.

The first element of our four-part strategic plan is to refit and refine the floor plans of our stores and departments to create a new, contemporary shopping environment. In 1982, we deferred temporarily an announced "complete refurbishing" program in order to quickly adopt new layouts and modern fixtures in every family apparel department of all U.S. K mart stores. At the same time, we developed a number of new prototypes for contemporary home improvement center departments, bed and bath shops, home computer departments and gourmet kitchen shops featuring broadened assortments and higher-quality merchandise lines. In 1983, we will progress rapidly to equip many more stores with these latest departments.

The second element of our strategy is to instill in our associates a new merchandising philosophy — not just a new merchandising program or simply the addition of merchandise to assortments, but a fundamental recognition that the K mart customer wants better-quality products at traditional K mart prices. In every department in every store in our company, new products are arriving daily — products of the best quality that carry recognizable brand names. While it is difficult to single out specific products or departments for recognition, our new philosophy may be most evident in our apparel departments. Particularly noteworthy in women's ready-to-wear is the Jonathan Logan line of sport coordinates, a K mart exclusive. The addition of many well-known designer-label and name-brand products, available at some of the best prices in the marketplace, is also evident.

The third element of our strategy for success in the '80s is to lower the operating expenses necessary to generate a dollar of sales for the corporation. Our approach to this critical issue was in three distinct parts. First, we decided to merchandise our entire family apparel operation on a centralized basis, using the proven cost-efficient distribution system of K mart Apparel Corporation. In 1983, the men's and boys' furnishings operations and our fashion accessories departments were successfully integrated into the K mart Apparel system. In early 1984, we will complete this process when our infants' wear departments also are converted into K mart Apparel's operation.

She was the first customer at K mart 4000, Garden City, MI

Opening Day, 21 years ago — Angie Penzoff of Dearborn, Michigan was right there at the front doors of K mart 4000, Garden City, Michigan and when they opened, she immediately rushed in, according to her friend Millicent Evanoff of Troy, Michigan. Since then, Angie has been a walking commercial for K mart as she never stops talking about the company.

The second part of our expense-reduction plan was to review completely the organizational structure, systems and procedures traditionally used inside K mart stores. Our goal was to help all employees to be more productive while making their jobs more rewarding and satisfying.

The third part of this productivity program was to apply computer technology to all possible phases of our operation at store level, in the distribution centers, in the regional offices and at International Headquarters. The strength of our commitment to computer technology is exemplified in the speed with which we implemented the K mart Information Network. During 1981 and 1982, we installed the system in over 600 stores per year, completing the installation one year ahead of our January 1, 1984 target. Equally important was our decision to implement Universal Product Code marking of merchandise. After testing the equipment in a few stores in 1981, we expanded the system to all K marts by the end of 1982.

The fourth element of our new strategy concerns the redeployment of assets — in particular, the reallocation of space within K mart stores to make room for exciting new merchandise offerings and to eliminate product categories no longer in mass demand.

We have not hesitated to close departments. The most significant effort in this area in 1982 was the closing of 361 automotive service departments in K mart stores, predominantly in smaller markets in more rural areas. This decision does not alter our conviction that the auto service department has a bright future; in fact, we are now in a better position to concentrate our efforts in metropolitan areas where our auto service business is most successful.

In essence, our strategy for the '80s is this: to provide contemporary, convenient general-merchandise retail facilities offering the best and widest assortments in name-brand products of excellent quality, offered to the consuming public at K mart's well-known low prices, with friendly service.

In combination, these four elements can affect the American consumer's perception of which retail store offers the best value for the dollar. Over the past four years, as part of our ongoing consumer research program, we asked consumers, "In your opinion, which general-merchandise retail store consistently provides the best values for the money?" And over the past four years, the number of respondents who mentioned K mart as that store has increased by over 40%. Not only is

K mart the general-merchandise store recognized as having the lowest prices overall, but it is the store that consistently provides the best values for the money. That reputation, coupled with the general expectation that "discount pricing" will continue to gain strength in the marketplace, leads us to conclude optimistically that the revitalized K mart of the '80s now in place will command a substantial improvement in market share and profitability.

Two events of 1982 are worthy of special note. On November 26, 1982, Harry B. Cunningham, chairman and president of the S. S. Kresge Company during the developmental years of the K mart program, retired from the Board of Directors. The contribution of this man, not only to our company but to the entire retail industry, is truly one of the most significant in American retail history. His grasp of the needs of the consumer and his ability to develop ideas and strategies for better serving that consumer are unmatched.

On December 1, 1982, a prototype retailing facility, Designer Depot, was opened by K mart Corporation. This new family apparel store is stocked entirely with name-brand products at very competitive prices. Consumer response to our merchandise offering was exceptional, and planning for the development of additional units is now well under way. Current plans call for the opening of a minimum of 30 additional Designer Depots in 1983 and a substantially greater number in 1984 and beyond.

A revitalized K mart for the '80s, development of Designer Depot, continued expansion of other ventures started in the past five years and our resolve to seek additional retailing opportunities provide the basis for great optimism. A healthy and expanding U.S. economy ahead will certainly result in an improved environment for substantial gains in future sales and earnings.

Following is the analysis of the sales dollar for K mart Corporation's 1982 fiscal year operating results.

K mart Corporation
(Analysis of Sales Dollar)
Year Ended January 26, 1983

	% of Sales
Sales	100.0%
Cost of Merchandise Sold (Including Rental Expense & Buying & Occupancy Costs)	72.6%
Salaries and Employee Benefits	14.6%
Supplies, Utilities and Other	5.9%
Advertising	2.4%
Taxes on Income	.9%
Profits	1.6%